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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Application of

PACIFICORP

For an Accounting Order Regarding Treatment
Of Certain Interest Expenses Associated With
PacifiCorp's Hydro Re-licensing Obligations

APPLICATION OF PACIFICORP

Case No. PAC-E-04-08

Pursuant to the provisions of Idaho Code § 61-524, and the Rules of Procedure of the Idaho Public Utilities Commission, PacifiCorp ("PacifiCorp" or the "Company") applies to the Commission for an accounting order authorizing the Company to (1) defer general rate consideration of the costs associated with the re-licensing of a number of its hydroelectric projects at this time, (2) reclassify the interest expense, associated with the Company's various hydro re-licensing obligations, as an operating expense in FERC account 539, Miscellaneous Hydroelectric Power Generation Expense, and (3) to include in rate base certain intangible assets and liabilities that are associated with its hydroelectric licensing obligations.

PacifiCorp proposes to defer consideration of the costs it has incurred as part of the re-licensing of its hydroelectric projects to a future rate filing, but it believes that re-classification of the interest expense and inclusion of certain assets and liabilities in rate base is necessary at this time to track and ensure appropriate regulatory recovery of the interest component that is

associated with the cash expenditures PacifiCorp is obligated to make, pursuant to the re-licensing orders issued by the Federal Energy Regulatory Commission (FERC).

In support of its Application, PacifiCorp states:

1. PacifiCorp is an electrical corporation and public utility in the state of Idaho and is subject to the jurisdiction of the Commission with regard to its rates, services, and accounting practices. PacifiCorp also provides retail electricity service in the states of California, Oregon, Utah, Washington, and Wyoming.

2. This Application is filed pursuant to I.C. § 61-501 (general powers of supervision and regulation) and § 61-524 (power to establish a Systems of Accounts), which authorize the Commission to prescribe the accounting to be used by any public utility subject to its jurisdiction.

3. Communication regarding this Application should be addressed to:

Doug Larson or
John Stewart
PacifiCorp
201 South Main, Suite 2300
Salt Lake city, Utah 84140-0023
Telephone: (801) 220-2190
Fax: (801) 220-3116
Email: john.stewart@pacificorp.com

In addition, it is respectfully requested that all formal correspondence and Staff requests regarding this matter be addressed to:

By E-mail (preferred): datarequest@pacificorp.com

By facsimile: (503) 813-6060

By mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 800
Portland, OR 97232

4. PacifiCorp is in the process of re-licensing a number of its hydroelectric projects with the Federal Energy Regulatory Commission (FERC) as current licenses expire. FERC issues the licenses, while various stakeholders in the project participate by providing their input regarding the application to FERC. Stakeholders in the project include various federal, state, and local government agencies along with land owners and others who are affected by the project. As part of the re-licensing process, the Company negotiates with stakeholders to gain support of the re-license application. These negotiations may result in settlement agreements which obligate PacifiCorp to make future payments which are intended to enhance tributaries, mitigate fish and wildlife concerns, and minimize the environmental impacts of the project. The total dollar amount of these future payments can be in the tens of millions of dollars and may require the Company to make payments over the entire course of the license, which may be up to a period of 50 years. When a settlement agreement is adopted with stakeholders, FERC incorporates the conditions of the agreement in the terms of the hydroelectric license it issues.

5. Until recently, the Company did not incur obligations of this magnitude in order to license its hydroelectric facilities with FERC. However, legislation such as the Endangered Species Act, the Clean Water Act, and the Fish and Wildlife Coordination Act, among others, now mandate that FERC consider the environmental impacts of a project when making a licensing decision. To ensure that all environmental issues are considered during the licensing process, FERC is required to take into account the input of the stakeholders in the project. As a result, in order to re-license its hydroelectric projects with FERC, PacifiCorp has had to commit funds that are intended to minimize the environmental impacts of its hydroelectric projects. At the present time, the Company has FERC ordered obligations of this character for both the Bear River and North Umpqua hydroelectric facilities.

6. The terms of the recently re-licensed Bear River hydroelectric project will serve as the basis for explaining the accounting treatment the Company has applied to these future payments, and that will be applied to subsequent re-licensing obligations of other hydroelectric projects. The license granted by FERC on 12/23/2003 obligates PacifiCorp to make payments of approximately \$25.9 million over the 30 year life of the license, to minimize the environmental impacts of the project. PacifiCorp was required by Generally Accepted Accounting Principles (GAAP) to record these future payments as a liability on the balance sheet upon accepting the license from FERC.

7. Recognition of the future payments as a liability on the balance sheet is governed by Financial Accounting Standards Board (FASB) Concept Statement 6, paragraph 35 which states, "Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events." From an accounting perspective, the future payments to minimize the environmental impacts of the project are the probable future sacrifices of economic benefit. The event that obligates the Company to make the future payments is the acceptance of the hydroelectric license from FERC. The future payments mandated in the terms of the Bear River hydroelectric license meet the conditions set forth by GAAP to be recorded as a liability. Consequently, a liability was recorded in FERC account 228 to reflect the future payments.

8. The offsetting entry for the recorded liability is an intangible asset that reflects the future benefit the Company will receive from the Bear River hydroelectric license over its life, as electricity is generated by the facility. This is supported by FASB Concept Statement 6, paragraph 25 which states, "Assets are probable future economic benefits obtained or controlled

by a particular entity as a result of past transactions or events.” The past transaction or event that provided PacifiCorp with a future economic benefit was the acceptance of the hydroelectric license from FERC. An intangible asset was recorded in FERC accounts 302 and 303 to reflect the future economic benefit of the Bear River hydroelectric license.

9. The liability and asset for the Bear River hydroelectric license were recorded on the balance sheet at \$12,194,375. This amount is the present value of the future payments required by the terms of the license. According to FASB Concept Statement 7, paragraph 1, quoted market prices are the best evidence of fair value and should be used as the basis for measurement when available. When no quoted market price exists to determine fair value, present value techniques are often used to establish the fair value. FASB Concept Statement 7, paragraph 78 states, “A present value technique is often the best available technique with which to estimate the fair value of a liability.” Since there is no quoted market price for the future payments required by the terms of the license, the Company used present value techniques to determine the amount at which the liability and asset would be recorded.

10. The asset value in accounts 302 and 303 will be reduced or amortized over the 30 year life of the license on a straight line basis. The amortization of the asset will be charged to FERC account 404, Amortization Expense, on the income statement and credited to FERC account 111, Accumulated Amortization, on the balance sheet. Due to the application of present value accounting, interest expense is charged, or accreted on the liability. Accreting¹ interest on the liability is intended to report the fair value of the liability on the balance sheet throughout its life. When interest is accreted, the liability is increased and interest expense is charged to FERC account 431, Other Interest Expense. As cash payments are made, in accordance with the terms

¹ Periodically the value of the liability is updated to its fair value. This update or change in the value of the liability is known as accretion. Accretion is recorded as interest expense. Accretion or interest expense does not reflect usury payments to creditors. It is an accounting method intended to reflect changes in the fair value of liabilities.

of the license, the liability in FERC account 228 is reduced. Exhibit 1 presents the journal entries made by the Company to set up the initial asset and liability on the balance sheet and the annual entries that GAAP requires to record interest accretion, amortization expense, and the cash payments.

11. The values of the asset and liability on the balance sheet are not expected to be equal to each other, other than at the beginning and ending of the license term, as the amortization of the asset and the changes in value of the liability will occur at different times over the term of the license. The difference between the asset and liability, at any given time, will equal cumulative amortization plus cumulative interest expense less total cash payments made. At any point in the term of the license, when cumulative booked expense is greater than cash payments made, the liability will be greater than the asset, creating a net liability position. Likewise, when booked expense is less than cash payments made, the liability will be less than the asset and a net asset position will exist. At the end of the life of the license, the total booked expense will equal the total of all cash payments made. The value of the asset and liability will both be zero. See Exhibit 2 for a detailed analysis of the expected expenses, balance sheet amounts, and cash payments, by year, for the Bear River hydroelectric project, as an example.

12. The accounting treatment for the future payments, as described above, is required by GAAP. However, this accounting treatment does not allow for recovery of the costs incurred by the Company, to obtain hydroelectric licenses, such as the Bear River license. In the revenue requirement formula, interest expense is calculated as the weighted cost of debt multiplied by rate base; this calculation is known as the interest synchronization calculation. Interest expense actually paid by the company is reversed out, and the calculated amount is included in results. Any interest costs not associated with or necessary to support rate base, is not recovered in rates.

In this application, the Company is seeking to include the license asset and liability in rate base, as will be explained in paragraph 14. Including the license liability in rate base will offset the rate base addition caused by including the license asset in rate base. Due to the inclusion of both the asset and liability, the net impact on rate base is expected to be relatively small. Because of the nominal impact on rate base caused by including the license asset and liability in rate base, interest expense associated with the license will not be recovered under the traditional interest synchronization method. Therefore, applying the accounting required by GAAP, the interest expense component of the future cash payments, recorded in FERC account 431, will not be recovered in rates, absent a commission order allowing the Company to change the accounting. Over the term of the license, cumulative amortization and interest expense will equal the sum of total cash payments made, as is demonstrated in Exhibit 2. Interest expense related to hydroelectric projects, such as the Bear River project, should be allowed regulatory recovery because it represents cash payments made, or to be made, in order to comply with the terms of the hydroelectric license.

13. In order to allow for regulatory recovery of the interest expense portion of the future payments relating to hydroelectric licenses, the Company requests commission approval to record interest expense accreted on the liability to FERC account 539, Miscellaneous Hydroelectric Power Generation Expense. Recording interest expense as it is accreted in FERC account 539 will allow for regulatory recovery of these otherwise unrecoverable costs. Amortization expense will be recovered by recording it in FERC account 404. See Exhibit 3 for the proposed journal entry to record accreted interest expense in FERC account 539. The application of this accounting treatment presents a timing difference between the recovery of interest and amortization expense through rates and actual cash disbursements made by the

Company. The timing difference is a result of the cash payments being disbursed over the term of the license at a different rate than the recording of interest and amortization expense.

14. To offset the effects of the timing difference, the Company proposes to include both the asset and liability, related to the hydroelectric license, in rate base. As explained in paragraph 11, when cumulative interest and amortization expense related to the license exceed the sum of cash payments made, the recorded liability will be greater than the asset, resulting in a net liability position for the license and a reduction to rate base. Likewise, when cumulative interest and amortization expense are less than the sum of cash payments made, the recorded asset will be greater than the liability, and the license will have a net asset position resulting in an increase to rate base. Including the license asset and liability in rate base ensures that at any given time during the term of the license, the timing differences between expense recognition and cash payments related to the license will be recognized.

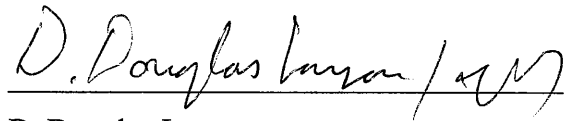
15. The accounting treatment for hydroelectric licenses proposed in this application allows for the regulatory recovery of the cash expenditures associated with obtaining the license. Recording accreted interest expense on the liability in FERC account 539 will allow for the recovery of these costs, which represent cash payments made, or to be made, to meet the terms of the license. Including the license asset and liability in rate base will offset the effect of timing differences between the recognition of amortization and interest expense and the disbursement of the cash payments.

16. Nothing in this Application is intended to request any approval regarding future ratemaking treatment. The Company notes, however, that consistent with past rate proceedings, the Company will seek to recover all prudently incurred costs associated with the re-licensing of its hydroelectric projects in future rate case proceedings.

WHEREFORE, PacifiCorp respectfully requests an Order of the Commission authorizing PacifiCorp to (1) defer general rate consideration of the costs associated with the re-licensing of a number of its hydroelectric projects at this time, (2) record accretion expense on its hydroelectric license liabilities in FERC account 539, Miscellaneous Hydroelectric Power Generation Expense, and (3) include hydroelectric license assets and liabilities in rate base. PacifiCorp requests permission to apply this accounting treatment on an ongoing basis to obligations the Company has incurred, or may incur in order to obtain licensure from FERC to operate its hydroelectric facilities.

DATED: December 23, 2004

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "D. Douglas Larson / [initials]", written over a horizontal line.

D. Douglas Larson
Vice-President, Regulation

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EXHIBIT 1

BEAR RIVER HYDROELECTRIC LICENSE CURRENT ACCOUNTING

Bear River Hydroelectric License Current Accounting

		FERC Account	Dr	Cr
<u>Initial Setup Entry</u>				
1	Bear River FERC Hydroelectric License	302 / 303	12,194,375	
	Bear River Hydroelectric Project Liability	228.4		12,194,375
To record the asset for the Bear River hydroelectric license along with the offsetting liability. Amount recorded represents the net present value of the payments to be made over the term of the license.				
<hr/>				
<u>Recurring Entries</u>				
2	Amortization of Bear River Hydroelectric License	404	34,350	
	Accumulated Provision for Amortization	111		34,350
Monthly entry to record amortization on the FERC license asset.				
<hr/>				
3	Other Interest Expense	431	45,540	
	Bear River Hydroelectric Project Liability	228.4		45,540
Monthly entry to adjust the liability to fair value through the accretion of interest on the liability.				
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4	Bear River Hydroelectric Project Liability	228.4	590,449	
	Cash	131		590,449
To record cash payment made to satisfy terms of the FERC license.				

Note: The amounts in entries 2 - 4 are based on projected amounts to be booked in Fiscal Year 2006

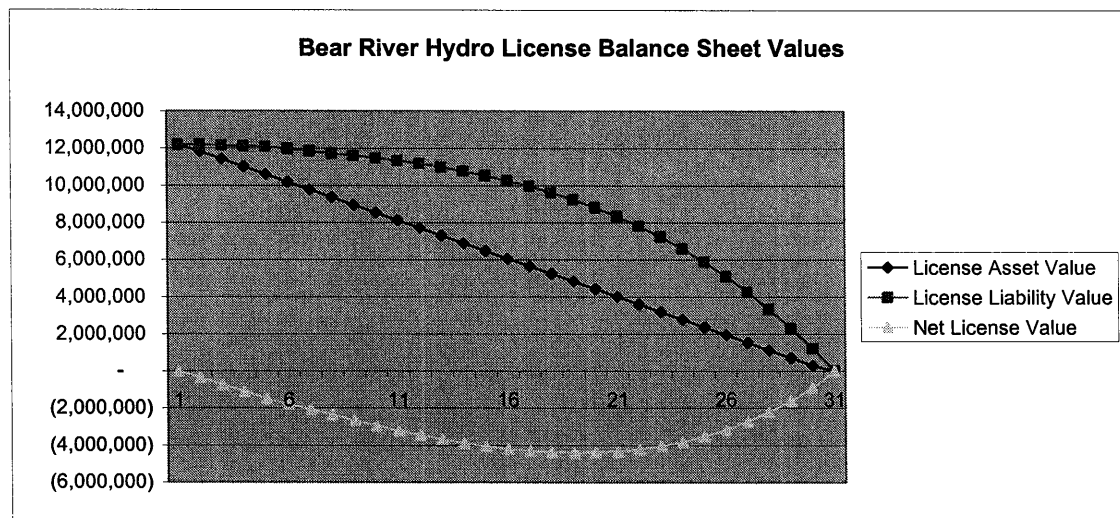
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EXHIBIT 2

**BEAR RIVER HYDROELECTRIC
LICENSE**

Bear River Hydroelectric License

Period	License Asset Value	Amortization Exp	License Liability Value	Interest Accretion Exp.	Payment	Net Value
(a)	(b)	(c)	(d)	(e)	(f)	(g)
	12,194,375		12,194,375			-
FY2005	11,833,696	360,679	12,189,180	442,275	447,470	(355,484)
FY2006	11,421,492	412,204	12,145,214	546,483	590,449	(723,722)
FY2007	11,009,288	412,204	12,100,986	560,982	605,210	(1,091,698)
FY2008	10,597,084	412,204	12,087,446	574,093	587,633	(1,490,362)
FY2009	10,184,879	412,204	11,967,318	582,770	702,898	(1,782,439)
FY2010	9,772,675	412,204	11,846,838	588,535	709,016	(2,074,162)
FY2011	9,360,471	412,204	11,712,186	592,090	726,741	(2,351,715)
FY2012	8,948,267	412,204	11,604,117	594,722	702,791	(2,655,851)
FY2013	8,536,062	412,204	11,479,631	595,874	720,360	(2,943,568)
FY2014	8,123,858	412,204	11,336,480	595,219	738,369	(3,212,622)
FY2015	7,711,654	412,204	11,172,194	592,543	756,829	(3,460,540)
FY2016	7,299,450	412,204	10,984,611	588,166	775,749	(3,685,161)
FY2017	6,887,246	412,204	10,771,498	582,030	795,143	(3,884,252)
FY2018	6,475,041	412,204	10,530,430	573,954	815,022	(4,055,389)
FY2019	6,062,837	412,204	10,258,777	563,744	835,397	(4,195,940)
FY2020	5,650,633	412,204	9,953,679	551,184	856,282	(4,303,046)
FY2021	5,238,429	412,204	9,611,959	535,970	877,689	(4,373,531)
FY2022	4,826,224	412,204	9,230,149	517,821	899,631	(4,403,925)
FY2023	4,414,020	412,204	8,804,473	496,445	922,122	(4,390,453)
FY2024	4,001,816	412,204	8,330,821	471,524	945,175	(4,329,005)
FY2025	3,589,612	412,204	7,804,725	442,708	968,805	(4,215,113)
FY2026	3,177,407	412,204	7,222,286	410,585	993,025	(4,044,878)
FY2027	2,765,203	412,204	6,579,555	375,119	1,017,850	(3,814,352)
FY2028	2,352,999	412,204	5,872,336	336,078	1,043,297	(3,519,337)
FY2029	1,940,795	412,204	5,096,171	293,214	1,069,379	(3,155,376)
FY2030	1,528,591	412,204	4,246,321	246,263	1,096,113	(2,717,730)
FY2031	1,116,386	412,204	3,317,752	194,947	1,123,516	(2,201,365)
FY2032	704,182	412,204	2,305,116	138,969	1,151,604	(1,600,934)
FY2033	291,978	412,204	1,202,735	78,013	1,180,394	(910,757)
FY2034	(0)	291,978	(0)	11,745	1,214,480	0

**Figure Calculations:**

Columns A, C, E, & F are static numbers in this exhibit

Columns B, D, & G are calculated. FY 2022 will be used as an example to demonstrate how the figures in these columns are calculated

Column B formula: FY2021 B - FY2022 C = FY2022 B

Column D formula: FY2021 D + FY2022 E - FY2022F = FY2022 D

Column G formula: FY2022 B - FY2022 D = FY 2022 G

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EXHIBIT 3

BEAR RIVER HYDROELECTRIC LICENSE PROPOSED ACCOUNTING

Bear River Hydroelectric License Proposed Accounting

	FERC Account	Dr	Cr
1	Miscellaneous Hydraulic Power Generation Expense	539	
	Bear River Hydroelectric Project Liability	228.4	45,540

Monthly entry to adjust the liability to fair value through
the accretion of interest on the liability.

Note: The only accounts affected by the proposed accounting change are 431 and 539

The amounts in this entry are based on projected amounts to be booked in Fiscal Year 2006